

Message Text

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TO AMEMBASSY REYKJAVIK

C O N F I D E N T I A L STATE 258151

E.O. 11652: ADS:DECLAS 11/30/76

TAGS: PFOR, IC, BDIS

SUBJ: UNION CARBIDE FERROSILICON PLANT

REF: REYKJAVIK A-22 OF MAY 5

1. TWO UNION CARBIDE (UC) OFFICIALS SAW ASSISTANT SECRETARY ENDERS ON OCT 29 RE DIFFICULTIES UC IS EXPERIENCING WITH SUBJ PROJECT IN ICELAND. US EUROPEAN REP WILL BE IN ICELAND BEGINNING NOV 3 TO SEEK EMBASSY'S ADVICE BEFORE TALKING TO GOI OFFICIALS ABOUT PROBLEMS.

2. UC OFFICIALS OUTLINED HISTORY OF FERROSILICON PLANT AS THEY SAW IT, NOTING ITS GROWTH FROM VERY MODEST PROPORTIONS TO A DOL78 MILLION PROJECT. HE NOTED THAT IN SPITE OF THE FACT THAT UC SIGNED THE BASIC LETTER OF AGREEMENT IN MAR, ITS IMPLEMENTATION IS DEPENDENT UPON THE SIGNATURE OF ANCILLARY AGREEMENTS COVERING FINANCING, WATER SUPPLY, ETC. THEY STATED THAT AT PRESENT THE PROJECT DOES NOT LOOK ALL THAT GOOD TO UC FOR THE FOLLOWING REASONS:

A) THE COST OF THE ORIGINAL DOL20 MILLION PLANT HAS RISEN DRASTICALLY; B) THE GOI IS USING ITS 55PERCENT CONTROLLING

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INTEREST IN AN IRRESPONSBLE MANNER; C) FINANCING IS

PROVING TO BE A REAL PROBLEM; D) THE VERY HIGH LABOR COSTS AND INFLATION RATE IN ICELAND; E) THE HIGH COST OF ALL MAJOR EQUIP, WHICH MUST BE BROUGHT IN FROM OUTSIDE. ELABORATING, UC REP POINTED OUT THAT GOI USED ITS MAJORITY POSITION ON THE BOARD OF ICELANDIC ALLOYS LTD. TO RAM THROUGH A RESOLUTION WHICH REQUIRES THAT ALL CONTRACTING BIDS MUST GO THROUGH THE BOARD, WHICH UC VIEWS AS AN ATTEMPT TO STEER CONTRACTS TO ICELANDIC CONTRACTORS. UC FEARS THAT THIS TIME-CONSUMING PROCEDURE INVOLVING CONTROL BY "AMATEURS" MAY MAKE WHAT IS ALREADY A DICEY PROJECT COMPLETELY UNECONOMICAL. RE FINANCING, MANUFACTURERS HANOVER IS INSISTING THAT UC BE RESPONSIBLE FOR SEEING ENTIRE PROJECT THROUGH--IN OTHER WORDS, GUARANTEE THE LOAN. SINCE GOI MAJORITY ON BOARD WOULD GIVE IT CONTROL OVER THE RATE OF EXPENDITURE, UC DOES NOT WANT TO ASSUME THIS RESPONSIBILITY.

3. UC HAS TO DATE TOLD ONLY NORDAHL OF CENTRAL BANK OF ITS PROBLEMS. UC REPS NOW PLAN TO MEET NEXT WEEK WITH MINISTER OF INDUSTRIES AND WITH MESSRS. "HERMANSSON AND JONSSON" AS WELL AS WITH DR. NORDAHL. IN ADDITION, THERE WILL BE A MEETING OF THE BOARD OF THE COMPANY NEXT THURSDAY. UC WILL NOT RPT NOT CANCEL OUT ON THE PROJECT NEXT WEEK BUT PROPOSES TO CALL A HALT TO ALL MOVEMENT, ASK FOR A RE-THINK AND PERHAPS PROPOSE THAT UC RETRENCH ON THE AMOUNT OF ITS EQUITY AND ITS PARTICIPATION, WITH ICELAND PICKING UP THE DIFFERENCE AND ASSUMING THE FINANCING RESPONSIBILITY (WITH NO UC GUARANTEE). UC CONSIDERS PRESENT AGREEMENT, AS IT IS BEING INTERPRETED AS BEING FAR TOO OPEN-ENDED.

4. IT IS POSSIBLE THAT UC IS USING THIS DEVICE TO SHAKE UP THE ICELANDERS AND CAUSE THEM TO BACK OFF ON THEIR LATEST DEMANDS.

UC SEEMS TO BE AWARE OF THE IMPACT THIS NEWS COULD HAVE IN ICELAND AND WILL BE SEEKING YOUR ADIVCE ON HOW BEST TO HANDLE THE SITUATION. DEPT MADE CLEAR THAT CONTACT WITH EMBASSY WAS INDISPENSIBLE. UC SPECIFICALLY REQUESTED THAT EMBASSY NOT DISCUSS MATTER WITH GOI AT THIS CONFIDENTIAL

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POINT.

5. DEPT WOULD BE INTERESTED IN LEARNING, IN DUE COURSE, OF EMBASSY'S ASSESSMENT OF SITUATION AS IT AFFECTS US INTERESTS IN ICELAND. INGERSOLL

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